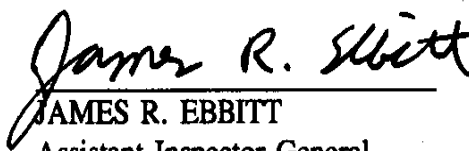


United States Department of Agriculture	Office of Inspector General Washington, D.C.	No.  27029-2
<b>Audit Guide</b>	<b>FOOD AND NUTRITION SERVICE</b>	
	<b>Audits of Child and Adult Care Food Program Institutions</b>	

This audit guide will be used by independent Certified Public Accountants in conducting audits of institutions operating the Child and Adult Care Food Program (CACFP). This program supersedes Audit Bulletin 27029-1, dated September 19, 1990.

  
**JAMES R. EBBITT**  
Assistant Inspector General  
for Audit

**AUDIT FIRMS WHICH DO NOT COMPLY WITH PROFESSIONAL AUDITING STANDARDS AND/OR FOOD AND NUTRITION SERVICE (FNS) PROGRAM REQUIREMENTS COULD BE REFERRED TO THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS, AND CONSIDERED FOR SUSPENSION OR DEBARMENT FROM PERFORMING AUDITS OF FNS PROGRAMS.**

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Date  
February 18, 1999

## P R E F A C E

The audit guide has been revised to incorporate changes in the Child and Adult Care Food Program Regulations at 7 CFR part 226, and audit standards and procedures prescribed by the Office of Inspector General, USDA. This revised guide was prepared with participation of representatives of the Food and Nutrition Service and the Office of Inspector General, and reviewed by the AICPA.

The State agency and Food and Nutrition Service will use the audits required under this program as a basis for reimbursement to sponsors of program costs. We are, therefore, relying on the professional integrity and competence of the auditor to attest to the propriety of the amount of reimbursement due a sponsor.

Users of this guide should be aware of the requirements herein and must exercise care to adhere to such requirements.

Comments and suggestions for improvement of this guide are encouraged.

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## I. GENERAL

### A. PURPOSE

This audit guide is designed for Food and Nutrition Service Regional Offices (FNSRO's) use in assisting independent Certified Public Accountants in conducting program-specific audits of the Child and Adult Care Food Program (CACFP) operations at the institution level. It will also be used by the Office of Inspector General (OIG) in conducting program-specific audits in the Virginia Regional Office Administered Programs (ROAP) CACFP. An institution is a sponsoring organization, a child care center, an outside school-hours care center or an adult day care center which enters into an agreement with the State agency to assume final administrative and financial responsibility for program operations.

This audit guide is not a substitute for knowledge of applicable laws, regulations and operating procedures. The auditor must be innovative in tailoring the audit approach to incorporate variables encountered at the audit site.

- B. APPLICABILITY.** This guide applies to all certified public accountants and State and local government auditors conducting program-specific audits of the CACFP. Auditors should determine whether or not the State agency has issued any supplemental audit information or requirements to sponsors. **If State agencies choose to develop their own audit guide, we recommend the use of material set forth in this guide as a basis for doing so.**

### C. BACKGROUND

Section 17 of the National School Lunch Act of 1966, as amended, authorizes the Secretary of Agriculture to carry out the CACFP. CACFP is intended to integrate nutritious food service with organized day care for enrolled children and certain functionally impaired, and elderly adults. Under Section 17 of the National School Lunch Act, the Secretary of Agriculture is authorized to provide cash reimbursement and commodity assistance (or cash paid in lieu of donated foods), on a per meal basis, for food service to children in licensed/approved nonresidential child care centers and licensed/approved family day care homes (FDCHs). A provision of the Older Americans Act Amendments of 1987, Public Law (PL) 100-175, amended section 17 to also provide CACFP benefits to eligible adults in adult day care centers.

Children and adults who may be eligible to receive meals under the program are identified in **7 CFR 226.2 Definitions**. An eligible "child" is defined as: (a) any person who has not reached his/her 13th birthday; (b) any dependent of a migrant worker who has not reached his/her 16th birthday; or (c) a person with a physical or mental disability (as defined by the State) of any age, who is enrolled in an eligible child care facility where the majority of persons are 18 years of age and under. In addition to children, the CACFP serves adults enrolled in eligible adult day care

institutions: (a) adults 60 years of age or older, and (b) functionally impaired adults over 18 years of age.

Within the U.S. Department of Agriculture (USDA), FNS is responsible for food service program operations. FNS provides assistance to State agencies administering CACFP by developing and implementing program regulations, instructions and guidance, providing funding for the reimbursement of program costs, and monitoring program performance. FNS furnishes funds to FNSRO through the Agency Financial Management System (AFMS). The implementing regulations for the program are included at **7 CFR 226**. In addition to providing cash assistance under these programs, FNS furnishes donated foods (commodities) under **7 CFR 250**. Administering agencies in 54 States or territories are responsible for disbursing CACFP benefits to eligible participating institutions. FNS, through its Mid-Atlantic Regional Office (FNSRO), has responsibility for directly administering the CACFP in Virginia, as a ROAP.

At the local level, the CACFP is operated by an eligible institution that has entered into an agreement with the administering agency to assume administrative and financial responsibility for CACFP operations. Organizations eligible to operate the CACFP are described in **7 CFR 226.2, Definitions, under "Institution" and "Sponsoring organization."** Program funds can be distributed only to those organizations that meet eligibility requirements. CACFP institutions are eligible for cash subsidies and donated foods (or cash-in-lieu of donated food) for reimbursable meals and supplements (snacks) served to eligible participants. Meal types must be approved and reimbursement is provided for meals served that meet Federal guidelines. Institutions that are sponsoring organizations, in turn, reimburse the participating homes and centers they administer. Family day care homes, unlike individual centers, must be administered by a sponsoring organization.

Public and private nonprofit organizations which are licensed or approved to provide nonresidential day care services are eligible to operate the CACFP. Private nonprofit organizations must be tax-exempt; however, an organization may participate in the program up to 180 days while its application is pending review by the Internal Revenue Service (**7 CFR 226.15(a)**). Private for-profit, nonresidential day care institutions, which receive compensation under Title XIX or Title XX of the Social Security Act may also qualify to participate in CACFP. To be eligible for the program, profit-making adult-care centers must receive compensation under either Title XIX or Title XX of the Social Security Act for at least 25 percent of its enrolled participants; profit-making child care centers must receive compensation under Title XX for at least 25 percent of its enrolled children or 25 percent of its licensed capacity, whichever is less (**7 CFR 226.2, Definitions, and 226.6, State agency administration responsibility**). The types of institutions which provide food

service under CACFP include child day care centers, head start programs, adult day care centers, outside-school-hours care centers, day care homes, and centers providing day care services to persons with disabilities. **(After July 1, 1999, homeless centers may participate in the CACFP. Section 107(j) of the William F. Goodling Child Nutrition Reauthorization Act of 1998).** Centers may participate in the program either independently or under the auspices of a sponsoring organization.

Independent centers enter into an agreement with the administering agency to provide day care services at a single site. The independent center assumes final administrative and financial responsibility for program operations, including the maintenance of records of daily food service costs, the number of meals or supplements served, and the determination and recording of participant eligibility. To receive CACFP reimbursement, the center must file a monthly claim with the administering agency.

Effective July 1, 1997, legislation (**P.L. 104-193, the Personal Responsibility and Work Opportunity Reconciliation Act of 1996**), established a two-tiered reimbursement system for family day care home providers. Under this structure, the level of reimbursement for meals served to enrolled children will be determined by economic need based on the location of the day care home; the income of the day care provider; or the income of individual children's households.

Low income providers and providers serving low income areas receive reimbursement payments at the tier I rate; other providers are generally reimbursed at a lower tier II rate. A tier II provider may elect to have the sponsoring organization identify all income eligible children in the day care home. If the children are determined to come from households with incomes at or below 185 percent of the poverty level, meals served to those children are reimbursed at the higher tier I rate. **(7 CFR 226, Improve Targeting of Day Care Homes Reimbursements, final rule published February 24, 1998)**

There are some significant operational differences in the delivery of program benefits to children and to adults. In order to implement the requirements under the Older Americans Act Amendment of 1987, PL 100-175, CACFP regulations were modified to relate to the particular circumstances of adult participation. For example:

- ! Family -- As it refers to children, "family" is defined as "... a group of related or nonrelated individuals, who are not residents of an institution or boarding house, but who are living as one economic unit." In reference to adults, "family" is defined as "... the adult participant, and if residing with the adult participant, the spouse and dependent(s) of the adult participant." **(7 CFR 226.2, Definitions.)**

- ! Eligibility Criteria -- Eligibility for participation in the program, as provided under the Older Americans Act Amendment of 1987, PL 100-175 and PL 100-460 (appropriations for rural development, agriculture and related agencies for FY 89), must be established for both the adult day care institution and the adult participant. However, institutions serving children must generally establish just their institutional eligibility. (**7 CFR 226.19a, Adult day care center provisions**).
- ! Meal Reimbursement -- Unlike facilities which serve children, adult day care centers may be eligible to receive food service benefits under CACFP and part C of Title III of the Older Americans Act of 1965. However, benefits reimbursement cannot be received from both programs for the same meal served (**7 CFR 226.19a, Adult day care center provisions**).

#### **D. PROGRAM RESPONSIBILITIES**

The sponsoring organization assumes complete administrative and financial responsibility for program operations at its facility(ies). It is required to monitor all food service operations, maintain food service data for each facility it sponsors, provide technical and consultative services to assist its facility in meeting CACFP requirements, and prepare and submit a consolidated monthly claim for reimbursement to the administering agency. (**7 CFR 226.16, Sponsoring organization provisions.**)

Family day care homes may participate only through a sponsoring organization. Family day care home sponsoring organizations are the only CACFP sponsors eligible to receive separate Federal reimbursement for administrative expenses. The administrative payments to sponsoring organizations are defined in **7 CFR 226.12, Administrative payments to sponsoring organizations for day care homes.**

#### **E. ABBREVIATIONS**

AICPA - American Institute of Certified Public Accountants

AFMS - Agency Financial Management System

CFR - Code of Federal Regulations (e.g., 7 CFR part 226)

CACFP - Child and Adult Care Food Program

FDCH - Family Day Care Home

FNS - Food and Nutrition Service

FNSRO - Food and Nutrition Service Regional Office

NSLA - National School Lunch Act

OIG - Office of Inspector General

OMB - Office of Management and Budget

PL - Public Law

ROAP - Regional Office Administered Program

SA - State Agency

SSI - Supplemental Security Income

TANF - Temporary Assistance for Needy Families (formerly AFDC - Aid to Families with Dependent Children)

USDA - United States Department of Agriculture

## **F. PERTINENT REGULATIONS, INSTRUCTIONS AND PUBLICATIONS**

Departmental regulations implementing OMB Circular A-133 (7 CFR 3052.235(a)) instruct auditors to use a program-specific audit guide issued by USDA if one is available. This audit guide is issued under 7 CFR 3052.235(a)), and should be used by auditors performing program-specific audits of the CACFP.

### **! Code of Federal Regulations**

Note: CFR Compendium is published annually; rates and income eligibility guidelines are revised and published annually.

**7 CFR 226, Child and Adult Care Food Program** including recently implemented requirements.

Notice: Child Nutrition Programs Income Eligibility Guidelines.



Notice: Child and Adult Care Food Program: National Average Payment Rates, Day Care Home Food Service Payment Rates, and Administrative Reimbursement Rates for Sponsors of Day Care Homes.

Notice: Food Distribution Program: Value of Donated Foods.

7 CFR 226, Child Nutrition and WIC Reauthorization Act Amendments, February 26, 1998.

7 CFR 210 and 226, CACFP; Improved Targeting of Day Care Home Reimbursements, February 24, 1998.

7 CFR 3015, Uniform Federal Assistance Regulations.

7 CFR 3017, Governmentwide Debarment and Suspension (Nonprocurement).

7 CFR 3018, New Restrictions on Lobbying.

48 CFR 31, Contract Cost Principles and Procedures

**! General Accounting Office Publication**

Government Auditing Standards - Revised 1994 (Yellow Book).

**! FNS Instructions and Guidance**

Applicable FNS instructions include, but may not be limited to the following:

FNS-113-4, Civil Rights Compliance and Enforcement in the Child Care Food Program, December 16, 1982.

FNS-755-1, Rev. 2, Delegation of Responsibility in the Child and Adult Care Food Program, December 19, 1991.

FNS-765-4, Rev. 2, Independence of the Review Official in the Child and Adult Care Food Program.

FNS-765-5, Rev. 1, Free and Reduced Price Eligibility Determinations for Foster and Institutionalized Children, March 19, 1986.

FNS-765-10, Rev. 1, Child and Adult Care Food Program Follow-up Verification Reviews, January 21, 1992.

FNS-765-11, Definition of a Complete Application for Categorically Eligible Children, August 5, 1987.

FNS-770-2, Rev. 1, Commodity Distribution Requirements in the Child and Adult Care Food Program, November 21, 1991.

FNS-776-3, Rev. 2, Eligibility of Individuals Over 12 Years of Age With Mental or Physical Disabilities in Child Care Facilities Participating in the Child and Adult Care Food Program, June 18, 1992.

FNS-776-4, Rev. 1, Temporary Emergency Residential Care in the Child and Adult Care Food Program, November 7, 1991.

FNS-776-8, Eligibility of Proprietary Title XX Centers, August 8, 1986.

FNS-776-9, Verification of Eligibility Procedures in the Child and Adult Care Food program, June 30, 1993.

FNS-781-7, Rev. 1, Cost of Distribution of Bonus Commodities to Family Day care Homes, January 21, 1992.

FNS-781-8, Rev. 1, Use of Program Funds for Child Care Standards Compliance, August 28, 1986.

FNS-782-1, Rev. 1, Outside-School-Hours Care Centers, August 27, 1986.

FNS-782-4, Rev. 2, Approval of Child Care Institutions for the Summer Food Service Program, November 8, 1991.

FNS-783-1, Rev. 2, The Grains/Breads Requirement for the Food-Based Menu Planning Alternatives in the Child Nutrition Programs, January 8, 1997.

FNS-783-2, Rev. 2, Meal Substitutions for Medical or Other Special Dietary Reasons, October 14, 1994.

FNS-783-7, Milk Requirement -- Child Nutrition Programs, Rev. 1, January 24, 1995.

FNS-783-8, Rev. 1, Distribution of USDA-Donated Foods to Schools, Child Care Institutions, and Service Institutions, December 30, 1976.

FNS-783-9, Rev. 2, Family Style Meal Service in the Child and Adult Care Food Program, May 3, 1993.

FNS-783-11, Rev. 1, Juice Products -- Child Nutrition Programs, August 17, 1995.

FNS-783-13, Rev. 2, Variations in Meal Requirements for Religious Reasons: Jewish Schools, Institutions, and Sponsors, December 3, 1992.

FNS-783-14, Rev. 1, (Change 1), Variation in Meal Requirements for Religious Reasons: Seventh-day Adventist Schools and Institutions, January 14, 1993.

FNS-784-3, Reimbursement for Meals Provided by Parents in the Child Care Food Program, October 14, 1982.

FNS-786-5, Rev. 1, Provider Claim Documentation and Reconciliation, November 8, 1991.

FNS-786-6, Rev. 1, Reimbursement for Recycled Milk and Other Meal Components, August 21, 1990.

FNS-786-7, Rev. 1, Reimbursement for Meals and Milk Served on Weekends, June 6, 1988.

FNS-786-13, Rev. 1, Limitation on Number of Meals/Snacks Per Child Per Day in the Child Care Food Program, September 29, 1987.

FNS-788-3, Rev. 2, Classification of Applicants in the Child and Adult Care Food Program, November 1, 1991.

FNS-788-5, Approval of Administrative Budgets for Multi-State Sponsoring Organizations of Family Day Care Homes - CACFP, October 25, 1982.

FNS-788-6, Rev. 2, Availability of Institutions' Records to Administering Agencies, November 1, 1991.

FNS-788-7, Rev. 2, Staff-Child Ratios for Centers in Child and Adult Care Food Program Child Care Standards, November 7, 1991.

FNS-788-8, Rev. 1, Handling Freedom of Information Requests for Day Care Homes, July 29, 1991.

FNS-788-10, Retroactivity of Agreements for the CACFP, October 14, 1982.

FNS-788-16, Administrative Procedures for Multi-State Sponsoring Organization - CACFP, October 19, 1983.

FNS-788-17, Documentation of Licensing/Approval, January 11, 1993.

FNS-788-18, Moving Toward Tax-Exempt Status in the CACFP, March 15, 1993.

FNS-791-1, Rev. 1, Prohibition Against Denying Meals and Milk to Children as a Disciplinary Action.

FNS-792-2, Rev. 1, Contracting Out Management Functions in the Child and Adult Care Food Program, November 1, 1991.

FNS-794-5, Rev. 1, Agreements with Entities which Operate Interstate Schools and Facilities, June 6, 1998.

FNS-796-2, Rev. 2, Financial Management - Child and Adult Care Food Programs, June 28, 1994.

FNS-796-5, Tax Issues Concerning Day Care Homes, October 14, 1982.

Child and Adult Care Food Program, Child Care Centers Handbook, Issued by FNS in August 1995.

Child and Adult Care Food Program, Adult Day Care Handbook, Issued by FNS in October 1993.

Child and Adult Care Food Program, Day Care Homes Handbook, Issued by FNS in October 1994.

Child and Adult Care Food Program, Eligibility Guidance for Family Day Care Homes, Issued by FNS in May 1997.

## **! OMB Directives**

OMB Circular A-87, Cost Principles for State and Local Governments.

OMB Circular A-102, Attachment O, Uniform Requirements for Assistance to States and Local Government Procurement Standards.

OMB Circular A-110, Uniform Administrative Requirements for Grants and Other Agreements With Institutions of Higher Education, Hospitals, and Other Nonprofit Organizations.

OMB Circular A-122, Cost Principles for Nonprofit Organizations.

OMB Circular A-133, Audits of States, Local Governments, and Nonprofit Organizations.

## **G. AUDIT OBJECTIVES**

### **1. General**

The objectives of the audit are to: (1) determine that program and participation data, reported by the institution on which claims for reimbursements are based, is presented fairly in all material respects, (2) test and report if the institution is in compliance with applicable laws and regulations, (3) determine the adequacy of the internal controls to provide reasonable assurance that program operations will be properly conducted, and (4) prepare a report showing the results of the examination.

### **2. Preliminary Procedures**

Prior to beginning the examination, if applicable, determine whether the institution has arranged for an organizationwide or single audit meeting the requirements of OMB Circular A-133. Federal agencies are to rely on recipient audits provided they are made in accordance with audit standards issued by the Comptroller General and otherwise meet the requirements of the agency. Federal agencies are not to duplicate the work, but are to build upon the results of non-Federal audits. OMB Circular A-133 calls for coordination between auditors for the entity and Federal auditors. FNSRO is to notify OIG if an audit meeting the requirements of the Circular has been performed or is planned, or if audits by other Federal agencies were recently performed or are scheduled.

Next, the auditor should obtain and review key reference material (See section I, part F of this guide.). This review should provide a frame of reference as to how the program operates and what the auditor may expect of the institution to properly administer the program. The auditor should make copies or extracts of those documents the auditor considers necessary to retain in the audit

workpapers. The following items will serve as a guide for materials that should be reviewed during the preliminary review:

- a. The institution's agreement(s) to operate the CACFP for the period under audit. (The FNSRO or SA should have this agreement on file.) Certain information should be available which will be needed to plan the audit approach and tailor this audit guide to meet circumstances at the institution level. Key information includes:
  - (1) type of organization--sponsoring organization and types of child care and/or adult day care facilities under its sponsorship, or independent center;
  - (2) type of reimbursement method (claiming percentages, blended rates or actual counts) and authorized reimbursement rates, applicable to child and adult day care centers and day care homes;
  - (3) institution's option to annually elect to receive commodities or cash in lieu of commodities, where available;
  - (4) institution's option to receive advance payments, if applicable; and
  - (5) reported enrollment and licensed capacity, if applicable.
- b. Previous audit reports concerning CACFP operations issued within the last 2 years and replies to the audit relating to any required corrective actions. The auditor should follow up on known findings and recommendations from previous audits and determine whether appropriate corrective action was taken. The auditor's report should disclose the status of known but uncorrected findings and recommendations.
- c. Program regulations and documents relating to the SA's management systems. The auditor should also have an understanding of Federal and FNS financial requirements.
- d. For the audit period, copies of claims for reimbursement the institution submitted and copies of documents showing reimbursements paid.
- e. Where applicable, governmentwide cost allocation plans.

- f. Copies of administrative reviews performed at the institution by the SA or FNSRO, and documentation relating to the necessary corrective actions taken or contemplated.
- g. Current and previous approved budgets. Consider changes in the budget and analyze whether the changes appropriately reflect changes in the institution's size and operations. Compare amounts budgeted for both operating and administrative expenses including, but not limited to, amounts budgeted for payroll, benefits, and leases (both space and vehicle).

## **H. STANDARDS AND GUIDELINES FOR CONDUCTING AUDITS**

The audit will be conducted according to the U.S. General Accounting Office "Government Auditing Standards (1994 revision), financial and compliance element of the "Standards for Audit of Governmental Organizations, Programs, Activities and Functions" issued by the Comptroller General of the United States, and the Statement of Position 98-3, "Audits of States, Local Governments, and Not-for-Profit Organizations Receiving Federal Awards" promulgated by the AICPA. The economy and efficiency, and the program results elements of the Standards are not required by this guide.

### **1. Audit Standards.**

#### AICPA Attestation Standards

The American Institute of Certified Public Accountants (AICPA) has published Statements on Auditing Standards which provide professional guidelines for performing attest services. These standards are to be followed by the certified public accountant (firm) in the practice of public accounting that is engaged to perform an attestation engagement. The engagements performed under the program should meet these Attestation Standards as they pertain to the technical competence, independence in mental attitude, due professional care, adequate planning and supervision, sufficient evidence, and appropriate reporting for the highest level of assurance as provided by an "examination" procedure to a presentation of assertions.

#### GAO Government Auditing Standards

The Comptroller General of the United States has published Government Auditing Standards (1994 revision) which contain standards for audits of governmental organizations, programs, activities and functions, and of government funds received by contractors, nonprofit organizations, and other

nongovernmental organizations. These standards are to be followed by Federal, State and local government audit groups, as well as independent public accountants, when required by law, regulation, agreement, contract, or policy. The examinations performed under this program must meet the Government Auditing Standards as they pertain to the auditor's professional qualifications, the quality of audit effort, and the characteristics of professional and meaningful reports for financial-related audits.

#### Other Authoritative Standards

To the extent applicable, to attestation engagements and financial-related audits, the engagement is subject to any other authoritative interpretive standards that apply to the engagement.

2. **Quality Assessment Program.** The Office of Inspector General has implemented procedures for evaluating audits made of USDA programs. Audits made by independent public accountants of the CACFP are subject to a quality review to be made by the Office of Inspector General or an independent public accounting firm. State/legislative auditors may also make quality reviews on behalf of USDA. Whenever these reviews disclose significant inadequacies in the quality of audit work, the independent public accountant will be contacted for corrective action. In those instances where inadequacies are not corrected, the matter will be submitted to the AICPA Professional Ethics Committee or the appropriate State regulatory agency.

Audits made by State and local audit organizations are subject to quality reviews by the Office of Inspector General, USDA.

3. **Independence and Objectivity.** To qualify to audit the CACFP, an auditor must be: (a) a certified public accountant, or an audit firm whose principal officers are certified public accountants; or (b) a public accountant licensed on or before December 31, 1970, currently certified or licensed by a regulatory authority of the State or other political subdivision of the United States; (c) State auditor general, State comptroller's office, or a comparable State audit organization; or (d) local government audit organization.

In accordance with AICPA attestation standards and government auditing standards, the audit organization and the individual auditors should be free from personal and external impairments to independence, should be organizationally independent, and should maintain an independent attitude and appearance.



4. **Scope and Period of Audit.** OMB Circular A-133, "Audits of States, Local Governments, and Nonprofit Organizations," establishes the uniform audit requirements for non-Federal entities that expend \$300,000 or more in Federal awards in one year. State or FNS policy, as applicable, establishes the audit requirements for proprietary Title XIX and Title XX centers. **(7 CFR 226.8(a)).**

5. **Conference with Sponsor Officials**

- a. **Initial Conference.** To help plan for the audit, the auditor must hold an initial conference with the administering officials.
- b. **Exit Conference.** Before completing the audit, the auditor should hold an exit conference with the sponsor's officials. The report, and in particular the findings regarding Program compliance, should be discussed and the administering office comments secured for inclusion in the report.

- I. **EVALUATION OF INTERNAL AND MANAGEMENT CONTROLS**

In accordance with Government Auditing Standards, auditors should obtain a sufficient understanding of internal controls to plan the audit and determine the nature, timing, and extent of tests to be performed. The evaluation consists of two phases:

- ! Review of the System - This is the process of obtaining information about the organization and the prescribed procedures used to capture program and financial data pertaining to food service operations.
- ! Test of Compliance - This is determining, through the review of selected transactions, whether the control features are applied as prescribed.

The auditor should, at a minimum, obtain an understanding of, and assess the control risk for, internal controls necessary to provide reasonable assurance that:

- a. The accounting system provides for actual meal service count by type-- breakfast, lunch, supper, and supplement or by participant depending upon claim method.
- b. Where an institution must determine participant eligibility for free, reduced price or paid meals, the structure provides for establishing eligibility and

reporting the results correctly. Also, adult day care must determine client's eligibility to participate based on age, impairment and residence.

- c. Where a sponsoring organization makes tier I home determinations, the structure provides for establishing eligibility and reporting the results correctly.
- d. Food service costs are adequately segregated, accumulated, and documented. Day care homes receive a flat reimbursement per meal type and are not required to keep program cost data; however, a sponsoring organization claiming administrative costs as the sponsor of FDCHs must have a system to capture administrative cost expenditures and income data.
- e. Income to the program is segregated, accumulated and documented.
- f. Federal procurement standards for food items, supplies, equipment and other goods and services are met.
- g. Costs (both direct and indirect) are charged appropriately to the CACFP.

#### **J. REPORTING REQUIREMENTS**

The report shall contain an expressed opinion, narrative statements, exhibits, and other pertinent data including deficiencies found and actions needed to correct and/or prevent recurrence of the deficiencies reported. The report should include the following:

1. An opinion as to whether the institution's claims for reimbursement during the audit period fairly presented the number of meals/supplements (and administrative costs if the auditee is a family day care home sponsor) eligible for reimbursement. If the auditor cannot express an opinion, the report shall disclose why and make appropriate recommendations. The following text should be used for unqualified opinions:

We have examined the accompanying statement of claims for reimbursement submitted by (institution's name) under the CACFP. Our examination was made in accordance with standards established by the AICPA and with generally accepted Government standards established by the Comptroller General of the United States and included tests of programs and accounting records prescribed by the USDA-OIG guide for audits of this program. In our opinion, the aforementioned claims present fairly the number of meals and/or supplements [and sponsor administrative

costs if the auditee is a family day care home sponsor] eligible for reimbursement for the period \_\_\_\_\_ through \_\_\_\_\_ (i.e., month and year).

2. In accordance with Government Auditing Standards, auditors should report significant audit findings, and where applicable, auditors' conclusions. The auditor should promptly report any illegal acts or indications of such acts. If officials are believed to be a party to such acts or otherwise implicated, the auditor should immediately notify OIG.
3. A report on the auditor's understanding of the internal controls and the auditor's assessment of control risk, which includes as a minimum, the scope of the auditor's work, the entity's significant internal controls or internal controls and reportable conditions.
4. A report of all audit findings, conclusions, causes and recommendations for all material instances of noncompliance and reportable internal control conditions presented in accordance with Government Auditing Standards (see chapter 5, Reporting Standards for Financial Audits, parts 23 and 27.
5. The titles of officials with whom the report was discussed, and their comments, including agreement or disagreement with the auditor's conclusions. The auditor will include any response from the audited institution and/or FNS as an exhibit to the final report. In addition, Exhibits A and B should be prepared.
6. Any nonmaterial instances of noncompliance and internal control weaknesses should be communicated in a management letter which should be referred to in the overall report. The sponsor should provide any management letters to FNS within 30 days of receipt.

## **II. AUDIT PROCEDURES**

### **A. SPONSORING ORGANIZATIONS**

#### **Eligibility**

#### **Purpose**

In order to participate in the CACFP, each sponsoring organization, independent child care center, independent outside-school-hours care center, and independent adult day care center must submit an application and meet the required eligibility

criteria. These institutions also agree to comply with specific program requirements. The eligibility criteria and program requirements are explained in **226.15, Instruction provisions; 226.16, Sponsoring organization provisions; 226.17, Child care center provisions; 226.18, Day care home provisions; 226.19, Outside-school-hours care center provisions; and 226.19a, Adult day care center provisions.**

#### Audit Procedures

1. Determine that the institution has submitted an application "including a budget" and has been approved to operate the CACFP. Verify that the budget has been approved and whether it has been amended." Compare the approved budget to the budget reviewed at Step G.2. (Preliminary Procedures). (**See 7 CFR 226.15, Institution provisions.**)
2. Determine that the institution is a public agency or a private nonprofit organization as defined under the Internal Revenue Code of 1986. An institution may be approved for a limited time while it is moving towards tax-exempt status. Profit-making institutions that receive Title XIX or Title XX funds may be eligible for CACFP participation. (**See 7 CFR 226.15, Institution provisions**). These institutions are required to have supporting documentation.
3. Determine that the institution(s) has/have been approved or licensed for care by Federal, State or local authorities, if required. (**See 7 CFR 226.6 (d), Licensing/approval for child care centers, outside-school-hours care centers, and day care homes.**)
4. When observing the service of meals or supplements in pricing program centers (which charge separately for meals), determine whether participants who receive free or reduced price meals are treated differently from other participants. Examples of discriminating treatment may include requiring participants to use separate serving lines or lunchroom facilities, to be served meals at a different time, or to work for their meals.

**Note: Auditors may report on compliance with laws and regulations and internal controls in the report on the financial statements or in separate reports. When auditors report on compliance and controls in the report on the financial statements, they should include an introduction summarizing key findings in the audit of the financial statements and the related compliance and internal controls work. Auditors should not issue this introduction as a stand-alone report. When auditors report separately on compliance and controls, the**

**report on the financial statements should state that they are issuing those additional reports.**

### Site Operations

Sponsoring organizations agree to provide specific functions and supervise the child care or adult day care facilities which they administer. Specific requirements are explained under **7 CFR 226.16, Sponsoring organization provisions.**

In addition to the financial requirements necessary for claiming reimbursements, sponsoring organizations must maintain records to substantiate that program advances (if applicable) and reimbursements for food service under CACFP are disbursed to the child care or adult day care facilities which they administer within the specified timeframe of 5 working days. Sponsors of legally distinct centers and/or day care homes must pass on advances within 5 working days of receipt of funds from the State agency; FDCH sponsors must reimburse their providers within 5 working days of receiving the advance from the State agency.

**Note: The pass-through requirement applies only to meal reimbursement funds, not to reimbursement for sponsor administrative costs. Also, the SA has the option to authorize a sponsor of distinct centers to retain a portion of the meal reimbursement funds for its own administrative costs.**

### Purpose

The purpose of this section is to: (1) determine if claims submitted to the State were supported and whether funds received were properly disbursed; (2) evaluate the sponsor's compliance with administrative requirements, such as the monitoring of providers' operations and the training of providers; (3) evaluate whether administrative costs claimed by the sponsor are approved, allowable, and supported; and (4) look for indications of potentially fraudulent activities by the sponsor.

### Audit Procedures

The following audit steps apply only to sponsoring organizations:

1. For facilities which began participation during the audit period, determine whether the sponsoring organization:
  - a. made a pre-approval visit to day care providers to discuss CACFP benefits and to determine whether the capability to provide food service exists, and

- b. trained facility staff in program duties and responsibilities.
- 2. Determine whether the sponsoring organization has provided, at a minimum, annual training sessions for child care or adult day care to facility staff.
- 3. Determine whether the sponsoring organization has completed the required review of child care or adult day care facilities to assess compliance with meal patterns, recordkeeping and other program requirements. If deficiencies were uncovered during reviews, examine what actions were taken to correct the deficiencies.
- 4. Determine whether the sponsoring organization performed all required monitoring visits to **FDCHs**.
- 5. Perform tests to determine that records for all reimbursement payments exist, that they reflect the payments received by the sponsors, and that these funds were passed through to the participating day care providers and/or centers, if applicable, within 5 working days.

**(Note: The pass-through requirement applies only to meal reimbursement funds, not to reimbursement for sponsor administrative costs. Also, the SA has the option to authorize a sponsor of distinct centers to retain a portion of the meal reimbursement funds for its own administrative costs.)**

- 6. Determine whether current meal counts and menu records for meals served were maintained.
- 7. Based on the number of participants in attendance on the day of visit, records on file, and reimbursement records, determine whether meals claimed reflect past claiming pattern.
- 8. Determine what controls the sponsor has in place to prevent or detect inflated and unsupported meal claims (i.e., monitoring instrument, meal counts, and parent audits).
- 9. Determine whether monitoring forms used by sponsors to document the results of their visits collect information necessary to demonstrate that the facility is in compliance with applicable regulatory requirements, and determine how sponsor personnel use such information to identify inflated meal counts and unsupported meals.

10. Determine whether sponsor oversight of the **FDCH** program provides the primary controls to ensure the validity of **FDCH** meal claims and maintain program integrity.
11. Determine whether sponsoring organization ensured **FDCHs** provided safe environments for children as addressed by licensing and local standards (e.g. fire inspections, general cleanliness, etc.).
12. Determine how many facilities each monitor is expected to visit each month. Consider whether a monitor can be reasonably expected to complete this number of visits and adequately review operations at each type of child care facility.
13. Determine whether sponsoring organization is following its approved management plan and budget.

For at least one month, determine the days on which monitors actually visited facilities and compare the number of visits completed on each day and during the month with the number of visits the monitors are expected to make. If the actual number of visits completed during the month or on any day is greater than the number of visits the monitor is expected to make, consider whether or not the forms documenting the visits are valid and accurate.

## **B. AUDIT OF CLAIMS FOR REIMBURSEMENT AND RECORDKEEPING**

1. **General**--The auditor may encounter a variety of circumstances in performing the audit which will necessitate tailoring the audit steps to be applied. The following information about reimbursements and recordkeeping should be useful to the auditor in evaluating this program area:

**P.L. 104-193, the Personal Responsibility and Work Opportunity Reconciliation Act of 1996**, established a two-tiered reimbursement system for family day care home providers. Low income providers and providers serving low income areas receive reimbursement payments at the tier I rate; other providers are generally reimbursed at a lower tier II rate. A tier II provider has the option of having the sponsoring organization identify all income-eligible children in the day care home. If the children are determined to come from households with incomes at or below 185 percent of the poverty level, meals served to those children are reimbursed at the tier I rate. All meals and supplements served at day care homes are served without charge to enrolled children.

FDCHs are required to maintain records on the number and daily attendance of enrolled children, the number and types of meals which they are served, and the menus for each of the meals served.

All child care or adult day care centers must keep records of participant enrollment, daily attendance, meals served by type, menus of meals served, and food service costs.

Day care homes are not required to maintain food service cost data unless using it to document eligibility for tier I status. Sponsoring organizations of FDCHs may claim administrative costs for carrying out the program functions required of them. The sponsor must maintain cost and income records to support any administrative costs which are claimed.

Reimbursement is not allowed for meals served to persons who are not enrolled in the program or adult day care participants who do not meet individual eligibility criteria, or for meals served in excess of the FDCH or center's authorized capacity.

Meals served at Title XIX or Title XX centers during a calendar month when less than 25 percent of enrolled adult participants were Title XIX or Title XX beneficiaries, or when less than 25 percent of enrolled children or less than 25 percent of the center's licensed capacity (whichever is less) were Title XX beneficiaries are not reimbursable.

All sponsoring organizations must maintain records which show that advance payments are passed on to legally distinct centers and/or day care homes within 5 working days, and reimbursements are passed on to the center or day care home within 5 working days of receipt of funds from the State agency.

Institutions in FNS administered programs, which are under a ROAP payment system, are not required to report meal costs on claims for reimbursement. However, such programs are required to maintain records of such costs to ensure that (1) a nonprofit food service is maintained, and (2) any cash balances carried forward are utilized solely for the benefit of the food service program. Any cash balances that cannot be appropriately utilized for the benefit of the food service program could be recovered at the discretion of FNS' Mid-Atlantic Regional Office (MARO). Auditors in such circumstances should report cash balances and the circumstances contributing to such cash balances.

2. **Meals and Supplements Claimed**--Four types of meal service are authorized in the program: breakfast, lunch, supplement (snack), and supper. The



agreement between an institution and the State agency specifies which types of meals the institution will claim. Subject to the agreement, an institution may receive reimbursement payments for any two of the three principal meals served (breakfast, lunch, or supper) and one supplement, or for two supplements and one meal, for each child or eligible adult in attendance each day of operation.

All claims that an institution reports to the State agency for reimbursement must be supported by accurate meal counts and records (**7 CFR 226.10, Program payment procedures**).

Those meals claimed for eligible persons in adult day care centers may not be claimed for reimbursement under Part C of Title III of the Older Americans Act of 1965 (**7 CFR 226.19a, Adult day care provisions**).

Meals served as seconds to enrolled, eligible participants may be claimed for reimbursement at institutions which do not use family-style service. (**See FNS Instruction 783-9, Rev. 2.**) However, as the goal of the program is to provide one meal or supplement, per participant, the serving of seconds should not occur frequently. Auditors should report as management findings any circumstances which in their judgment do not comply with the regulatory directive to plan on the basis of one meal per participant per meal service per day. Any fiscal determination should be left to the discretion of FNSRO.

3. **Program Income.** Institutions reimbursed at the lesser of meals-times-rates or cost and family day care home sponsors must claim reimbursement for their meal production costs and administrative costs, respectively, net of program income generated during the grant period. Institutions reimbursed at meals-times-rates only must use program income for program purposes (**FNS Instruction 796-2, Rev. 2, paragraph IX D 2**).

CACFP regulations define income to the program to mean "... any funds used in the institution's food service program, including, but not limited to all monies, other than (CACFP) payments, received from other Federal, State, intermediate, or local government sources; participant's payments for meals and food service fees; income from any food sales to adults; and other income, including cash donations or grants from organizations or individuals" (**7 CFR 226.2, Definitions**). Possible Federal sources of income would include Head Start, Title XIX, or Title XX funds used to pay labor costs. Income to the food service operation must be accounted for and considered in determining net program costs. The auditor will need to understand requirements on how to account for other funds which may be identified; how these funds may have been used in food service, and whether such use would require the reporting of these

funds as CACFP income. It may be necessary to contact appropriate Federal or State grantors, or to review the fiscal year closeout of the funds in question.

### **Purpose**

The auditor must determine whether the institution's costs of acquiring meals for participants are correctly documented and whether its claims for reimbursement are correctly reported. The preliminary procedures outlined in section I, part G(2) of this guide are designed to provide the auditor with needed background information in order to proceed with the examination of the institution.

### **Audit Procedures**

1. Trace the income reported on the claims for reimbursements by the sponsoring organization to the sponsor's ledgers or similar records.
2. Trace the reported income to source documents, e.g., records of sales to nonprogram adults, records of monies collected from participants, deposit slips or bank statements.

**(Note: This applies only to audits of institutions in States that consider actual cost in reimbursing institutions).**

3. Test to assure that any funds received by the institution, which could impact on CACFP, were considered and properly accounted for. Any significant surplus in the food service account which is disclosed but not accounted for by the institution should be explained in the audit report.
4. Trace meal types and supplements reported on the monthly claim for reimbursement to supporting documents, which must contain meal counts taken at the time of service by meal types (breakfast, lunch, supper or supplement). The auditor should be alert to indications of noncounts or overreporting, e.g., the same meal counts reported each day, or meal counts exceeding the number of children in attendance. The auditor should compare the number of meals claimed with the number of children present at the time the meal was served.
5. Observe a meal service to determine the number of meals claimed for reimbursement. **(Note: Some institutions count and claim meals by category and type, and some institutions claim percentages or blended rates, which require aggregate counts by type).** Determine whether the

method used resulted in an accurate meal count. Daily meal counts must be documented in order to comply with regulations (**7 CFR 226.15, Institution provisions**). If data are unavailable, the auditor's observations and conclusions about meal counts reported should be noted in the audit report, and appropriately treated in the opinion.

6. If meals are claimed by category, perform appropriate tests to ensure that it has a system which provides accurate counts by category (free, reduced price, paid). A determination may be made using enrollment, attendance and participant eligibility data.
7. If the serving of second meals has been reported as a problem, use the observations made about meal service and meal count controls to perform tests to determine what corrective action has been taken by the institution to provide only one meal per participant.
8. Test to ensure that meals are not claimed for participants in excess of an institution's licensed capacity. Meal counts may exceed the licensed capacity of either a center or home if meals are served in shifts where one group of participants leaves the premises before another group arrives, and the number of enrolled participants in care at any given time does not exceed the authorized capacity. Review time "in" and "out" sheets.
9. Test to ensure that meals claimed for CACFP reimbursement do not duplicate reimbursement under another Federal program, and that the costs associated with those meals claimed under CACFP are not funded with monies from other program sources. **Note: CACFP is the primary funding source for food service in programs like Head Start.**
10. Where a difference is found between meals reported for reimbursement and meals supported by documentation or audit tests, determine its financial impact on the reimbursement paid or scheduled to be paid.
11. Consult with the distributing agency regarding any specific institution's election of USDA donated commodities, or cash-in-lieu of commodities. Determine that the institution is receiving commodities or cash-in-lieu in accordance with its agreement.

### C. FREE AND REDUCED PRICE DETERMINATIONS

Each sponsoring organization and independent center must submit a written policy statement to the administering agency concerning free and reduced price meal service as part of its application for program participation. Once the initial free and reduced price policy statement is submitted it does not have to be resubmitted unless there are substantive changes to the original document. The policy statement for centers must describe the center's meal pricing system.

Pricing programs are those in which enrolled participants who do not qualify for free meals are charged separate fees for their meals. This may be a direct payment from the participant at the time each meal is served; a separate daily, weekly, or monthly food charge or meal ticket payment; a specifically earmarked portion of the tuition payment for food service; or an identifiable reduction from the standard tuition rate for meals provided by parents. Meal prices are set by the CACFP institution with approval of the State agency.

Nonpricing programs are those in which no separate charges are made for meals served to enrolled children (**7 CFR 226.15, Institution provisions**). All meals and supplements served in day care homes are served at no separate charge to eligible children.

Eligibility for free or reduced price meals may be established by the submission of an annual application or statement which furnishes such information as family income and family size. A child's eligibility may also be established categorically based on the household receiving benefits under the Food Stamp Program, Food Distribution Program on Indian Reservations (FDPIR), federally funded Head Start or Even Start, or a State program funded under part A of Title 4 of the Social Security Act, commonly referred to as the Temporary Assistance for Needy Families (TANF). Such households may furnish documentation of participation in one of these programs in order to establish a member's eligibility for free or reduced price meals under the CACFP. For FDCH children, there may be additional federally funded State programs that meet automatic eligibility requirements.

Adults may also establish their eligibility for free meals under the CACFP by furnishing a Food Stamp Program case number, or Medicaid and/or Social Security Income (SSI) assistance identification number (**7 CFR 226.23, Free and reduced price meals**).

The application form used to establish eligibility for free or reduced price meals must request the name of the participant(s), the signature of an adult household member, and the date. If an individual is categorically eligible for free meal benefits, an

appropriate benefit program case or identification number must also be provided on the application. Otherwise, each completed application must contain household information which enables the institution to determine income eligibility. This information must include the names of all household members, the amount and source of income attributed to each member, and the social security number of the adult who signs the application.

For a tier I FDCH, meals served to the providers' own children may be reimbursed only if the following three conditions exist:

1. the provider's children must be enrolled and participating in the child care program during the time of the meal service (**7 CFR 226.18(e)**);
2. other enrolled nonresidential children must be present and participating in the same meal service; and
3. the sponsoring organization must have an income eligibility statement on file for the provider's household showing that the provider's household is income eligible or categorically eligible for benefits.

A tier II provider may elect to have the sponsoring organization identify all income-eligible children in the day care home. If the children are determined to come from households with incomes at or below 185 percent of the poverty level, meals served to those children will be reimbursed at the tier I rate.

The number of participants found eligible for free and reduced price meals and the accuracy of the institution's eligibility determinations directly impact on the reimbursement which an institution may receive. The SA or FNSRO, as applicable, uses these determinations to calculate the reimbursement to which an institution is entitled (**See 7 CFR 226.23, Free and reduced price meals**).

### **Purpose**

To determine whether the institution accurately determined eligibility for free and reduced price meals.

### **Audit Procedures**

The auditor should be alert particularly to the accuracy of eligibility determinations, in performing the following steps:

1. Trace to supporting documents the number of enrolled participants reported as eligible for free, reduced price, or paid meals.
2. Review household applications, or any other data used by the institution to support eligibility determinations, to verify that these represent participants enrolled for the audit period, and to determine that participants were correctly classified as eligible for free, reduced priced or paid meals based on household size and income or categorical eligibility.
3. Determine the impact that errors in categorizing enrolled participants or reporting eligibility may have had on the reimbursement which an institution received or was scheduled to receive.

#### **D. ADVANCED PAYMENT**

Necessary instructions and procedures relative to advanced payments can be found in **7 CFR 226.10, Program Payment Procedures and 226.16, Sponsoring Organization Provisions; and FNS Instruction 796-2, Rev. 1. Section 708(f) of PL 104-193 amends Section 17(f) of the NSLA** by making payment of advances to CACFP institutions optional for State agencies. The auditor should consult with the State agency about its advanced payment policies and procedures after reviewing these instructions.

##### **Purpose**

To determine that the sponsor has procedures in place that provide effective controls over advance payments.

##### **Audit Procedures**

1. Review the procedures and controls established for receipt and accountability of advance payments.
2. Determine if monthly claims for reimbursement are submitted no later than 60 days following the last day of the month the claim represents.
3. For sponsoring organizations of legally distinct centers and/or day care homes, which have received advanced payments, determine that advances are passed through, in their entirety, to centers and/or providers within 5 working days of receipt from the State agency.

4. Determine, on the basis of claims submitted, if the amount of advance is excessive; if so, determine the amount to be repaid.
5. Determine the method used by the SA or FNSRO, as applicable, to assure compliance with applicable program policy to close out the program at the end of each fiscal year. Determine that the claims for reimbursement are adjusted in accordance with the appropriate policy for any outstanding advances.

## **E. PROCUREMENT AND PROPERTY STANDARDS**

### **Purpose**

The procurement of food items, supplies, equipment, and other goods and services must be obtained efficiently, economically, and in compliance with the provisions of Attachment O of the applicable circular, either OMB Circular A-102 (which covers grant and cooperative agreement programs with State and local governments and Indian Tribal governments) or OMB Circular A-110 (which covers grant and cooperative agreement programs with institutions of higher education, hospitals, and other nonprofit organizations), and **7 CFR 3015, subpart S, and 226.22**. Except under the circumstances outlined in the OMB Procurement Standards, procurements in amounts established by the circulars must be formally advertised for a contract. Any procurement whose value equals or exceeds a threshold established by the circulars must be formally advertised. State and local laws may require formal bidding procedures on procurements of lesser amount as well.

### **Audit procedures**

1. Determine that Federal, State and local announcement criteria are met. ("Cost plus a percentage-of-cost" or "cost plus a percentage-of-income" contracts are not allowed to be used.)
2. Determine that bids submitted by food service management companies totaling \$50,000 or more are submitted to the SA for review before being accepted.
3. Review public solicitations and signed contracts for provisions that suggest conflicts of interest, such as loans or other monetary benefits to the contractor. Report any such provisions noted.
4. Determine that nonexpendable equipment purchases in excess of the amount specified in **7 CFR 3015** are accounted for in accordance with the equipment management requirements at **7 CFR 3015, Subpart R (Property)**.

## **F. ADMINISTRATIVE COSTS**

1. **Administrative Costs for Day Care Homes**--Funds are available to sponsoring organizations of FDCH's to reimburse administrative costs incurred for planning, organizing and managing the food service. License-related expenses, up to \$300 per home, are allowable costs. Examples of specifically disallowed costs are direct support payments to family day care home providers and those that support proprietary activities of a sponsor or its related organization. Administrative payments may not exceed specific rates established for each FDCH sponsor (**See Instruction 796-2, Revision 2**). Administrative reimbursement is limited to the lesser of the following factors on a cumulative Federal fiscal year-to-date basis: (a) the sponsor's approved administrative budget (total); (b) actual administrative costs less income to the program; or (c) the appropriate monthly rates per home times the number of operating homes in each month. In addition, during any fiscal year, administrative payments to a sponsoring organization may not exceed 30 percent of the total amount of administrative payments and food service payments for day care home operations (**7 CFR 226.12, Administrative Payments to Sponsoring Organizations for FDCHs**).
  
2. **Administrative Costs for Sponsoring Organizations of Child and Adult Day Care Center**--Each institution must submit an administrative budget as part of its application (**7 CFR 226.15, Institution Provisions**). USDA reimbursements which are used to cover administrative expenses must be properly supported and allowable under CACFP regulations, and should not exceed the total budget approved by the SA.

**Note: Sponsors of these centers may vary the amount of reimbursement paid to sponsored facilities up to the maximum allowed or retain a portion of the rates for their administrative costs in accordance with the management plan approved by the State agency. (FNS Instruction 796-2, rev. 2).**

The auditor should be alert to sponsoring organizations which receive funding under programs administered by other Federal agencies (e.g., Head Start funds received from the Administration for Children and Families under the U.S. Department of Health and Human Services or Title III monies received from the Administration on Aging for adult day care centers) and whose reimbursements from USDA exceed its expenditures for food and administrative costs.



### **Purpose**

To determine that administrative costs claimed by the auditee are allowable under Federal cost principles and program regulations, and are supported by documentation.

### **Audit Procedures**

1. Trace reported administrative costs to ledgers or similar records used to capture the data.
2. Trace ledger entries to source documents, e.g., payroll records, invoices, paid receipts or canceled checks. The auditor should be alert to unallowable costs, e.g., interest payments, finance charges, bad debts, entertainment costs, payments made to any individual, provider, employee or contractor based on the number of homes recruited. **(See FNS Instruction 796-2, Rev. 2, for a detailed list of unallowable costs.)**
3. Verify that expenses incurred were necessary and provided benefits to the program, and that the costs were reasonable and necessary. To assess personnel costs, it may be necessary to review job descriptions, and to observe and interview staff to determine the work which is performed. Report as a management finding any material variations from approved line item totals and the underlying causes therein.  
  
Determine whether the institution rents space and whether any employee or any member of the board of directors has an ownership interest in the rented property. If so, verify that space costs reported or charged to the program are limited to depreciation expense or a use allowance, whichever is appropriate, and other costs of ownership.
4. Perform tests to determine that costs included in the approved indirect cost plan were not also charged as direct program costs.
5. Perform tests to ensure that personnel costs claimed as sponsor administrative costs were not also claimed as direct food service labor costs.
6. Test to ensure that charged costs reported to CACFP were not also charged to any other Federal program.

7. If there was an error in reporting costs, determine its financial impact on the reimbursement which the sponsor has received or is scheduled to receive; any discrepancy should be explained in the audit report.
8. Evaluate the sponsoring organization's internal controls for administrative expenses.
9. All costs claimed should have been included in the sponsor's annual budget. Perform tests to determine that costs are allowable CACFP expenses, within the budget approved by the SA, and adequately supported by receipts, invoices, time and attendance records, etc.
10. For centers, determine and report cash balances and any material circumstances associated with them.
11. Determine that payroll expenditures are adequately supported with time and attendance records. If payroll costs are allocated between programs, determine the basis for how the allocation is measured.
12. For sponsoring organizations which receive funding from other Federal agencies, determine whether there is a separate accounting maintained.
13. If unallowable, unsupported, or excessive administrative costs are identified, or if weaknesses in internal controls are found, complete a cash flow summary. This summary should include the auditor's determination on all administrative costs which are unallowable, unsupported, or in excess of the total budget approved by SA payroll expenditures; and sponsor profit, e.g., reimbursements which are in excess of allowable food and administrative expenses.
14. Determine the extent to which the administering agency has authorized a sponsor of distinct centers to divert meal reimbursement payments from its centers to its own administrative costs before testing the costs themselves.

#### **G. SELECTION OF SITES FOR ON-SITE REVIEWS**

The only effective means for detecting problems such as inflated claims for reimbursement is through actual on-site evaluation. The auditor should be alert to facilities which consistently claim 100 percent attendance, or show a lapse of more than 3 years in State agency monitoring, or are operated by a sponsoring organization serving more than one type of institution or population.

On-site reviews of targeted facilities should be performed to determine that enrolled participants are the actual participants served, meals are served at appropriate times and meet CACFP meal pattern requirements, site personnel receive adequate training from the sponsor; and to detect problems which could result in the disallowance of meals.

**To ensure the success of on-site reviews, the element of surprise is essential. In prior audit work, we concluded that the effectiveness of provider reviews (performed by both the SA and the sponsor) was greatly diminished because the visits were always announced. With advance warning, providers were able to ensure that program requirements were met on the day of the review. Our unannounced visits found widespread problems which were not disclosed in earlier announced reviews. We believe the same applies to reviews of sponsors. Where SA contacts are not made during the sponsor selection process (to avoid the possibility of "tip-offs"), preliminary work at State or local agencies should be performed as near to the review date as possible. In addition, State or local agency staff should be advised to limit the knowledge of the pending reviews to as few persons as possible.**

## **H. CONDUCT ON-SITE REVIEWS**

### **Purpose**

To conduct onsite reviews of food service to recipients to ensure that (1) accurate claims are submitted for reimbursement; (2) meals are served to eligible population, and (3) the program is operating according to CACFP regulations.

### **Audit Procedures**

1. Select sites for review applying the criteria in section II, part G, "Selection of Sites for On-Site Reviews."
2. If a review cannot be completed, obtain as much information as possible and explain why the review could not be completed. If no one is home, it is critical to revisit the home, particularly if prior claims indicate that the provider should be at home at the time of the visit. Try to revisit at a different time of the day or on another day. Consider whether the house might be vacant. If feasible, check with neighbors to establish whether the provider still resides at the location and provides day care.

3. Observe as many meal services as possible. When observing meal service, auditors should also observe the preparation and cleanup processes.
4. Compare the number of meals claimed for reimbursement by the site with the auditor's count and observation of the meal service, and with the number of meals claimed for the previous month. If the site's claim is inconsistent, determine why.
5. Determine if the meals claimed are consistently equal to the enrollment or the number of meals delivered. If yes, interview sponsoring officials to determine why. If the institution does not prepare meals on-site, determine if the number of meals ordered and delivered are adjusted periodically, and documented, to reflect changes in attendance. Check whether the institution records change in participant enrollment or eligibility. If no, determine why not.
6. If discrepancies in meal counts reported or claimed versus meal delivery are noted, interview the site supervisor in charge of food service to determine the basis of the discrepancy.
7. Determine the monetary effect of any adverse findings disclosed through the review.

#### **I. MEAL PATTERN/MENU PLANNING**

A meal or supplement service must contain prescribed food components in prescribed quantities in order to qualify for reimbursement. Menu requirements are established in **7 CFR 226.20, Requirements for meals**. Substitutions of food items are allowed, for religious reasons (**see FNS Instruction 783-13, Rev. 2 and FNS Instruction 783.14, Rev. 1**), or if a child or an adult is unable to eat a certain food because of medical or other special dietary needs (**See FNS Instruction 783-2, Rev.2**). Substitutions due to medical needs must be supported by a statement from a recognized medical authority.

#### **Purpose**

(1) To determine whether meals and supplements are in accordance with Program regulations, (2) to evaluate whether the number of meals claimed appears reasonable compared to the number of children observed, and (3) to determine that adequate supporting documentation is on file for required meals and supplements.

### **Audit Procedures**

The auditor should pay particular attention to the adequacy of menus, in performing the following audit steps:

1. Observe the serving of meals and/or supplements, and determine whether they contain the required components in accordance with the guidelines in **7 CFR 226.20, Requirements for Meals**. (The auditor is not expected to measure or weigh components.)
2. If meals or supplements are served in a family style setting, observe whether the service of food and milk is in accordance with **FNS Instruction 783-9, Rev. 2**.
3. Examine the institution's menus to determine that meals or supplements have been planned to meet meal pattern requirements. In centers using a cafeteria-style food service, the menu should list all food items from which a participant could select a meal consisting of the required components. Menus for meals which are not prepared on-site should be available from the vendor and must be maintained on-site as documentation.

**Note: Although "offer versus serve" is available to adult participants, each adult day care center must offer its participants all of the required food servings as set forth in paragraph (c)(1), (c)(2) and (c)(3) of section 226.20.**

4. Observe whether food is prepared and served under sanitary conditions.
5. Examine the center's records (recipes, menus, and inventory records) to determine whether the portions prepared generally reflect the number of meals served, the volume of food purchased, and the meals planned on the menus.

**Note: The focus here is whether or not the institution withdrew sufficient ingredients from inventory to prepare the number of meals reported as having been served.**

6. For one month, determine the number of reported meals served to children by age group, which included milk as a meal component.
  - a. Multiply the total meal counts for each age group times the appropriate minimum quantity of milk required for a reimbursable meal to obtain the minimum quantity of milk required to support the reported meal counts.

- b. Schedule the total amount of milk purchased for the month from the institution's receipts or invoices for food purchases.
- c. Compare the minimum amount required to support the reported meal counts to the amount of milk purchased for the month.
- d. If the amount of milk purchased during the month is less than the minimum amount required to support the minimum meal pattern, ask management to explain the discrepancy. If the institution's explanation is inadequate, multiply the percentage of milk less than the minimum by the reported meal counts and disallow those excess meals.

Audited Statement of Claim

ANYTOWN CHILD CARE FOOD PROGRAM

Agreement No. 1234-56

19 \_\_ Child and Adult Care Food Program

For the Period \_\_\_\_\_ to \_\_\_\_\_

Reimbursement per Audit	\$ 9,644
(Supported by EXHIBITS B and C as needed)	

Program Reimbursements Claims and Received*	<u>10,078</u>
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Amount due Institution (Amount due from Institution)	<u>\$ (434)</u>
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\* Actual reimbursements received from administering agency should also include administrative reimbursement received for FDCHs.

Should also include income that accrued to the program.

A footnote should reflect if the claims for reimbursement have been paid or not.

Should also include revised claims.

Schedule of Meals Served and Program Reimbursement  
(Sponsor with No Day Care Homes)

ANYTOWN CHILD CARE FOOD PROGRAM  
Agreement No. 1234-56  
19 \_\_ Child and Adult Care Food Program

For the Period \_\_\_\_\_ to \_\_\_\_\_

<u>Meals Served</u>	<u>Number Served by Meal Type</u>				
	<u>Breakfast</u>	<u>Lunch</u>	<u>Supplement</u>	<u>Supper</u>	<u>Total</u>
From _____ to _____	861	4,981	5,577	4,427	15,846
- Less meals disallowed based on meal violation notices from FNSRO	-	(43)	(940)	(119)	(1,102)
- Less meal adjustments made by auditor for program violations (net of FNSRO notices)	-	(222)	(160)	-	(382)
Net Meals Served	<u>861</u>	<u>4,716</u>	<u>4,477</u>	<u>4,308</u>	<u>14,362</u>
Reimbursement Rate*	<u>\$.2675*</u>	<u>\$.4775*</u>	<u>\$.1675*</u>	<u>\$.4775*</u>	<u>-</u>
Total Based on Reimbursement Rate	<u>\$ 307</u>	<u>\$ 572</u>	<u>\$ 131</u>	<u>\$ 520</u>	<u>\$1,530</u>

\* The auditor must determine (from the FNSRO) the actual reimbursement for the audit period by meal type. Note: Regulations provide three methods for computing reimbursement - one of which will be assigned by the administering agency to each independent center and sponsoring organization of centers at least annually:

- claiming percentages;
- blended per meal rate; or
- total monthly counts of the actual number of meals by type served each day to children eligible for free, reduced price, and paid meals.

(Statement continued on next page to cover day care homes.)



Schedule of Meals Served and Program Reimbursement  
(For Day Care Homes Only)

ANYTOWN CHILD CARE FOOD PROGRAM  
Agreement No. 1234-56  
19 \_\_ Child and Adult Care Food Program

For the Period \_\_\_\_\_ to \_\_\_\_\_

<u>Meals Served</u>	<u>Number Served by Meal Type</u>				
	<u>Breakfast</u>	<u>Lunch</u>	<u>Supplement</u>	<u>Supper</u>	<u>Total</u>
From _____ to _____	1,146	1,211	946	1,282	4,585
- Less meals disallowed based on meal violation notices from FNSRO	-	(14)	(16)	(175)	(166)
- Less meal adjustments made by auditor for program violations (net of FNSRO notices)	-	-	(148)	(18)	(166)
Net Meals Served	<u>1,146</u>	<u>1,197</u>	<u>782</u>	<u>1,089</u>	<u>4,214</u>
Reimbursement Rate*	<u>\$.2675*</u>	<u>\$.4775*</u>	<u>\$.1675*</u>	<u>\$.4775*</u>	<u>-</u>
Total Based on Reimbursement	<u>\$ 307</u>	<u>\$ 572</u>	<u>\$ 131</u>	<u>\$ 520</u>	<u>\$ 1,530</u>

Program Cost for Centers and Day Care Homes

Payment for Centers	\$8,114
Day Care Homes Reimbursement	<u>1,530</u>
Sub-total	\$9,644
Administrative Costs for Day Care Homes +	<u>971</u>
Total Program Reimbursement	\$10,615

\* The FNS Regional Office should be contacted to determine the appropriate reimbursement rate for the audit period.

\* Total administrative cost reimbursement for day care homes is limited to actual costs pertaining only to the home or the amount determined by multiplying the number of homes by the appropriate rate or the amount approved by the FNSRO in the sponsoring organization's budget.

Note: Use either or both schedules (Exhibit B(1) & (2) depending on sponsor's activity.

Audited Statement of Monetary Claims and Questioned Cost

<u>Detail No.</u>	<u>Description of Exception</u>	<u>Amount</u>
1		\$
2		
3		
4		_____
Total to be collected from institution or reimbursed to institution		\$ _____